AR32

BETHLEHEM COPPER CORPORATION

TWENTY-SECOND ANNUAL REPORT, 1976

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FINANCIAL HIGHLIGHTS

	1976	1975
Net earnings	**$ 1,685,000**	$ 2,421,000
Earnings per share	**$ .27**	$ .39
Dividends per share	**$ .60**	$ .60
Employees	**402**	398
Total company payroll	**$ 7,252,000**	$ 6,197,000
Capital expenditures	**$ 6,999,000**	$ 4,215,000
Exploration and development	**$ 1,296,000**	$ 936,000
Direct taxes paid	**$ 1,872,000**	$ 5,994,000
Working capital	**$56,227,000**	$61,310,000

ECONOMIC IMPACT

of Bethlehem's operations in the period December 1, 1962 to December 31, 1976

Export sales	(U.S.) $313.1 Million
Salaries and wages paid	$ 48.5 Million
Supplies and services purchased	$121.2 Million
Capital expenditures	$ 46.0 Million
Exploration and development	$ 17.0 Million
Taxes:	
Direct taxes paid by Company	$ 47.5 Million
Deducted from employees' earnings	$ 11.0 Million
Dividends paid to shareholders	$ 40.8 Million

Valuation Day Price—$18 per share

CORPORATE INFORMATION

Directors

TRYGGVE ANGEL, *Stockholm*
President of Gränges International Mining

SVEN NILS ERSMAN, *Stockholm*
Member of the Corporate Management Committee, Gränges AB

JOHN A. McLALLEN, *Vancouver*
Chairman of Bethlehem Copper Corporation

WILLIAM H. McLALLEN, Jr., *Vancouver*
President of Capilano Timber Co. Ltd.

PLATO MALOZEMOFF, *New York*
Chairman and Chief Executive Officer of Newmont Mining Corporation

HUGH A. MARTIN, *Vancouver*
President of Western Construction & Engineering Research Ltd.

THE HON. JOHN L. NICHOL, *Vancouver*
President of Springfield Investment Co. Ltd.

KUNIO OHTA, *Tokyo*
Adviser to the President of Sumitomo Shoji Kaisha Ltd.

BRYAN J. REYNOLDS, *Vancouver*
President of Bethlehem Copper Corporation

PATRICK M. REYNOLDS, *Vancouver*
Vice Chairman and Chief Executive Officer of Bethlehem Copper Corporation

ALAN G. THOMPSON, *Calgary*
President of J. Henry Schroder & Co. Limited

JACK E. THOMPSON, *New York*
President of Newmont Mining Corporation

Officers

JOHN A. McLALLEN, *Chairman of the Board*

PATRICK M. REYNOLDS, *Vice Chairman and Chief Executive Officer*

BRYAN. J. REYNOLDS, LL.B., *President*

KEITH E. STEEVES, C.A., *Treasurer*

DONALD W. J. SPECHT, LL.B., *Secretary*

WILLIAM J. BODEN, C.A., *Assistant Treasurer*

Audit Committee
HUGH A. MARTIN, *Chairman*
BRYAN J. REYNOLDS
ALAN G. THOMPSON

Honorary Positions
HERMAN H. HUESTIS, *Honorary Vice Chairman*
RICHARD F. DOOLEY, *Honorary Vice President*

Vice Presidents
HENRY G. EWANCHUK, *Exploration*
THOMAS P. LISS, *Operations*
RICHARD A. MUNDIE, *Corporate Planning and Development*
DONALD W. J. SPECHT, *General Counsel*
KEITH E. STEEVES, *Finance*

Exchange Listings
Vancouver and Toronto Stock Exchanges

Registrar
The Royal Trust Company, *Vancouver*

Transfer Agents
The Royal Trust Company
Vancouver, Calgary and Toronto, Canada

Registrar and Transfer Company
Jersey City, New Jersey, U.S.A.

Auditors
Arthur Andersen & Co., *Vancouver*

Solicitors
Lawrence & Shaw, *Vancouver*

Offices
Head Office:
#2100 - 1055 West Hastings Street
Vancouver, B.C. V6E 2H8

Mine Office:
P.O. Box 520, Ashcroft, B.C. V0K 1A0

Annual Meeting
The Annual General Meeting of Bethlehem Copper Corporation will be held on Thursday, June 9, 1977 at 10:00 a.m. in Park Ballroom "C" of The Four Seasons Hotel, Vancouver, British Columbia, Canada.

REPORT TO SHAREHOLDERS

In our report to shareholders a year ago, we advised that operating costs at Bethlehem's mine in Highland Valley, British Columbia, had been cut by reducing the stripping of overburden and waste below desirable limits and that more than normal stripping would be required in 1976 which would add to that year's production costs. The extra stripping was a major factor in net earnings being 27¢ per share compared to 39¢ per share in 1975. Although the average price of copper improved in 1976 the increase was insufficient to allow a reasonable profit in an inflationary environment.

TAXATION CHANGES

The new government of British Columbia elected in December of 1975 has honoured its pledge to repeal Royalty and Mineral Land Tax legislation imposed by the previous government. These taxes have been replaced by a tax based on profits earned. However, the total combined federal/provincial tax burden borne by the mining industry in British Columbia is still too great to encourage development of mining to its fullest potential. We urge the federal and provincial governments to work toward an agreement on tax sharing which will decrease the overall burden on the industry.

ORE RESERVES

The ore now being processed is being mined from the Iona deposit. A substantial stripping program will be necessary in 1977 to prepare the Jersey Mine which will supply the ore needed in 1978 when the Iona is exhausted.

Studies now underway suggest the economics of the J-A orebody will improve substantially if it is mined by block caving methods rather than open pit as previously considered. An up-date of all Highland Valley ore reserves is contained in a separate section of this year's report.

LAKE ZONE OREBODY

Discussions during 1976 with Valley Copper Mines Ltd. (N.P.L.) aimed at developing a mutually satisfactory plan to bring the Lake Zone orebody into production. Bethlehem is satisfied that immediate development of the Lake Zone is economically justifiable. An early decision on development would benefit Bethlehem by bringing lower cost ore to its mill and provide income from its over-riding royalty on the greater part of Valley's portion of the Lake Zone. Valley would, of course, also benefit from immediate development by way of positive cash flow and elimination of its mounting debt, a matter of concern to Bethlehem and all other Valley shareholders.

VALUATION OF ASSETS

In keeping with a plan to separate Highland Valley development from other activities, we are now proceeding to place all operations and assets in that area into a separate operating subsidiary. In order to provide our shareholders with current information on the value of these mining assets and to provide a basis for future joint venture dis-

John A. McLallen, *Chairman*

Patrick M. Reynolds, *Chief Executive Officer*

Bryan J. Reynolds, *President*

cussions with Valley, we have estimated their value in the manner set out fully in the section of this report entitled "The Highland Valley Assets". Our cash, non-mining assets and property outside the Highland Valley have also been valued, using current value methods, in an extension of our financial statements. This valuation approach is also the subject of a separate section of this report. In management's opinion, these valuations demonstrate an underlying value of Bethlehem to be **in excess of $23 per share.**

DIVERSIFICATION

A co-ordinated effort has been made by the Exploration and Corporate Development Departments under, respectively, H.G. Ewanchuk, P.Eng., Vice President, and R.A. Mundie, C.A., Vice President, to secure projects for the company in North America, with emphasis on coal, uranium and base metal properties or companies.

FRIO OIL LTD.

A steady accumulation of land inventory and development of cash flow by Frio has considerably increased that company's value. Bethlehem has a 37% interest in Frio.

LABOUR AGREEMENT

Bethlehem's contract with Canadian Association of Industrial Mechanical and Allied Workers Union, which represents our employees, terminates June 30, 1977. Negotiations for a new contract are in progress.

1977 OPERATIONS

Emphasis will be on developing Highland Valley ore reserves, securing investments elsewhere to broaden the company's earning base and concluding agreement for bringing the Lake Zone into production.

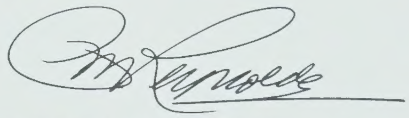
APPOINTMENTS

On November 1, 1976, Bryan J. Reynolds, LL.B., a Director and formerly Executive Vice President of the company, was appointed President. Coincident with that appointment, P.M. Reynolds, C.A., was appointed Vice Chairman, retaining the position of Chief Executive Officer.

ACKNOWLEDGEMENT

The directors and management wish to express their appreciation to all our employees for their continuing contribution and dedicated support throughout the year.

On behalf of the Board.

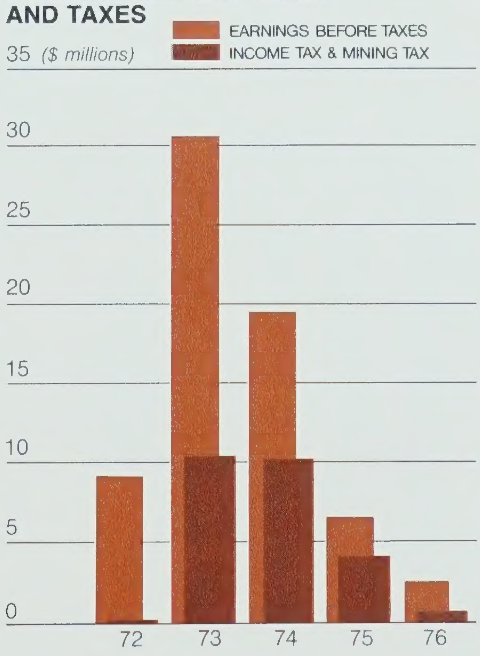


PATRICK M. REYNOLDS
Chief Executive Officer

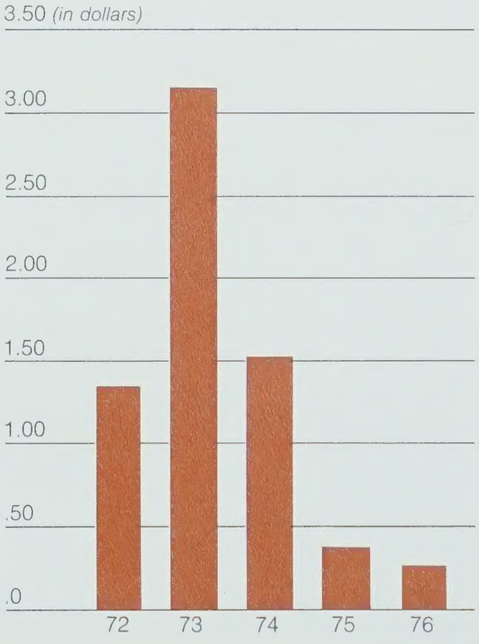
April 25, 1977.

NET EARNINGS

EARNINGS BEFORE TAXES AND TAXES



EARNINGS PER SHARE



GENERAL MANAGER'S REPORT

PRODUCTION

Record production figures were established during 1976 for total wet tons moved in the mine and total dry tons of ore milled, in consequence of which pounds of copper recovered exceeded that of the previous year despite a decline in copper content of the mill feed. It should be noted that, as the amount of copper in the mill feed declines, maintenance of recovery rate is not possible.

Mine	**1976**	1975	% Variance
Ore Mined—Wet Tons*	**8,998,350**	8,086,140	+ 11.28
Waste Mined—Wet Tons	**14,508,178**	9,609,735	+ 50.97
Total Mined—Wet Tons	**23,506,528**	17,695,874	+ 32.84
Stripping Ratio—Waste: Ore	**1.87:1**	1.35:1	

*Includes Stockpile Ore to Crusher

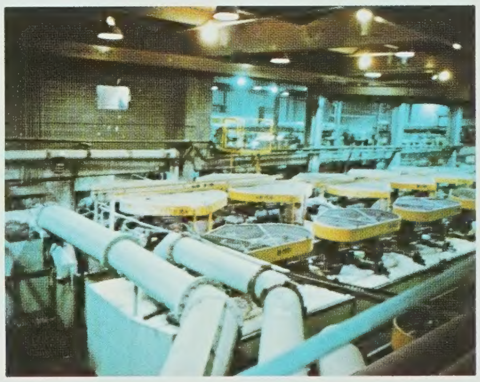
Plant	**1976**	1975	% Variance
Ore Milled—Dry Tons	**7,455,894**	6,464,539	+ 15.34
Rate per Calendar Day—Dry Tons	**20,371**	17,711	+ 15.02
Feed—% Copper	**0.44**	0.47	− 6.38
Concentrate—% Copper	**36.74**	33.05	+ 11.12
Pounds Copper Recovered	**55,122,918**	54,629,783	+ 0.85
Recovery—%	**84.01**	89.95	− 7.07

COST OF PRODUCTION

	$ Per Ton Milled		¢ Per Lb. Recovered	
	1976	1975	**1976**	1975
Direct Operating Costs (Mining, Milling, Overhead and Transportation)	**3.30**	3.02	**44.57**	35.77
Depreciation	**.43**	.37	**5.88**	4.32
Total Production Costs	**3.73**	3.39	**50.45**	40.09
Increase	**10.0%**		**25.8%**	

THOMAS P. LISS, B.Sc.
Vice President–Operations
General Manager–Highland Valley Operations

In 1976 the mine returned to full production after running at a curtailed rate of waste removal during 1975. The increase over the previous year in expenditures on plant operation is largely attributable to moving more material in mining operations, milling a greater tonnage in the plant and continuing inflation.



CAPITAL COSTS

In 1976 capital expenditures amounted to $7 million, most of which was devoted to replacement of smaller mine equipment by four 100-ton trucks and two 13-yard electric shovels. This capital program is now complete.

PRESENT OPERATIONS AND FUTURE PLANS

Toward the end of 1976, economic ore in the Huestis Pit was exhausted. Present ore supply is drawn from the Iona Pit, development of which is being co-ordinated with stripping of the Jersey Pit Expansion.

During 1977 the mining department plans a record movement of 31 million tons of ore and waste to ensure flow of ore supply to the plant from the Jersey Pit Expansion when planned exhaustion of the Iona Pit occurs in early 1978. The 1977 year commenced with approximately 45 million tons of ore reserves remaining in the Iona and Jersey orebodies which are in close proximity to the mill; at current production rates these reserves will provide feed for approximately six years.

Milling operations, now being maintained at a rate of 20,000 tons per calendar day, are not expected to vary markedly.

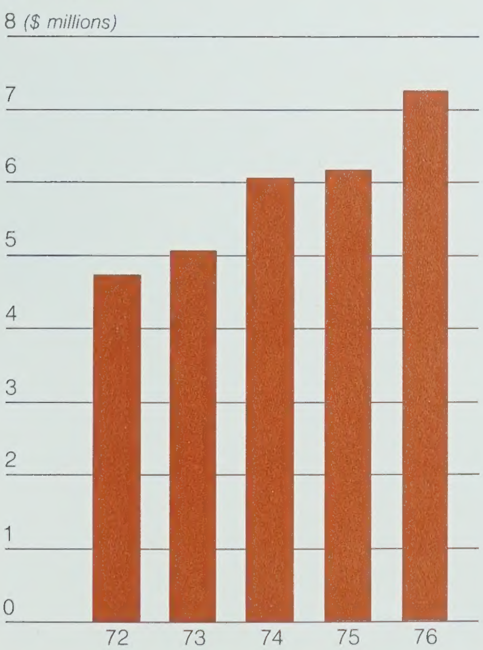
EMPLOYEE RELATIONS

Relations with all the employees were amicable during the past year. Our current labour contract expires in June 1977.

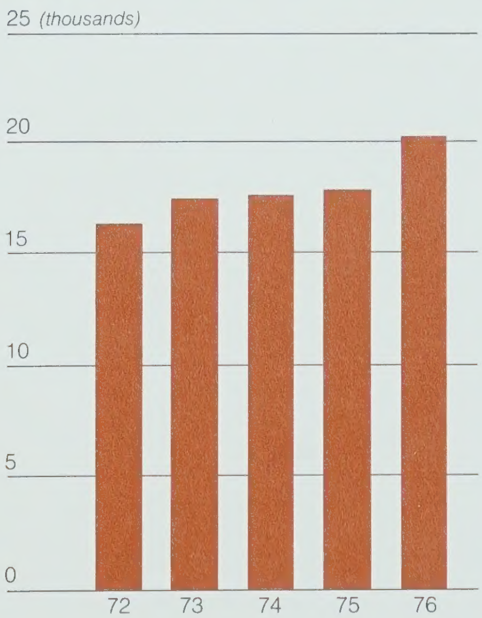
ACKNOWLEDGEMENT

I wish to take this opportunity to extend my thanks and appreciation to the employees of the Highland Valley Operation for their continuing efforts to make our mine a viable operation in spite of nationwide difficult economic problems being experienced.

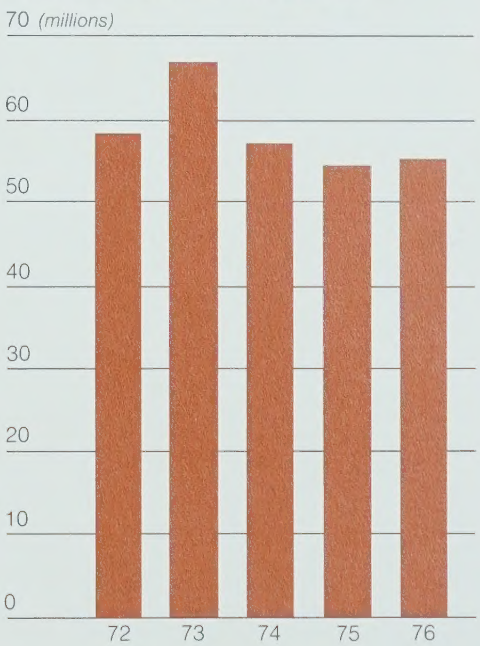
PAYROLL



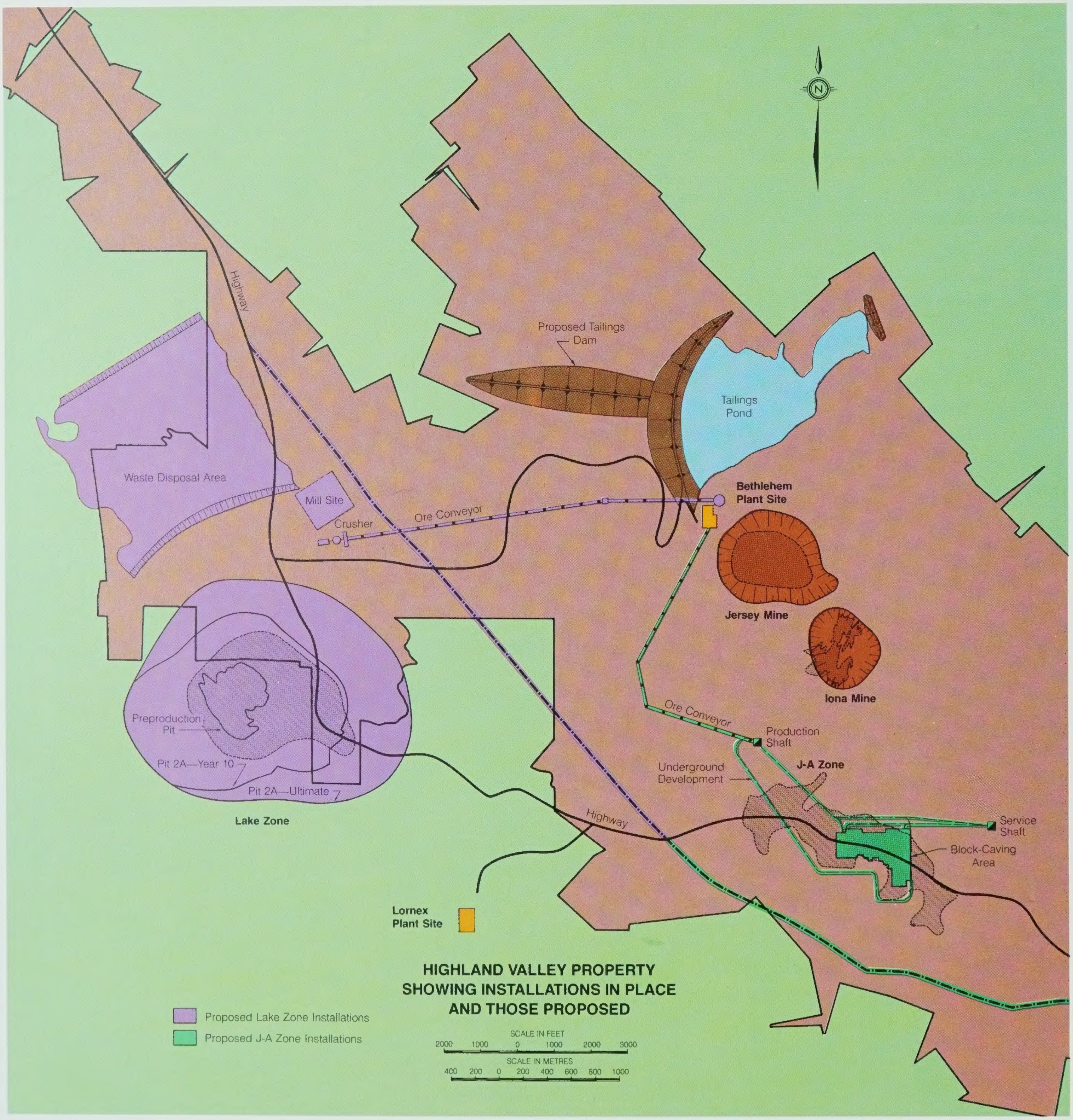
AVERAGE TONS ORE PROCESSED PER DAY



POUNDS COPPER PRODUCED



THE HIGHLAND VALLEY ASSETS



Bethlehem's Highland Valley assets consist of mining equipment, a mill and support facilities, the ore reserves of the Iona and Jersey Mines, the J-A Zone, the Maggie Mine and Bethlehem's interests in the Lake Zone, which include 20% direct ownership of the orebody, a 2½% net smelter returns royalty over a major portion of the Valley Copper interest in the Lake Zone and a 5.13% direct share interest in Valley itself.

HIGHLAND VALLEY ORE RESERVES AND POTENTIAL

Ore can be defined as an aggregate of minerals, from which at least one can be profitably extracted. "Ore" is not an absolute; whether or not material is ore depends on economic circumstances, the most important of which are capital cost of equipping an orebody for production, operating and capital replacement costs during production, market price for metal extracted from the ore and taxes assessed against the operation. High inflation in the capital cost of plant construction during the 1970s has adversely affected the viability of several undeveloped orebodies. Fortunately for Bethlehem, the existence of its mill serves to alleviate the risk that inflating costs will prevent the mining of its undeveloped Highland Valley reserves.

Iona and Jersey Mines

These mines, the nearest to Bethlehem's present plant, contain approximately 45 million tons of ore which at current production of 20,000 tons per calendar day will feed the mill for approximately six years. Drilling is now under way adjacent to the Jersey Extension in an area promising expansion to the south of that orebody, in addition to which deep test (2000 feet) drilling has commenced in unexplored ground underlying the present pit and bordering the Jersey fault to the east.

J-A Zone

Discovered in 1971 the J-A mineralized zone contains 286 million tons of material grading .43% copper and .017% molybdenum. This zone is covered with deep overburden, removal of which would be so costly as to render an open pit plan for J-A uneconomic at current copper prices. Recently, however, a re-examination of the J-A Zone was undertaken to determine the feasibility of mining it by underground block caving methods. While studies are not complete, it appears that if certain technical questions under study can be positively answered approximately 130 million tons of ore grading .51% copper and .027% molybdenum may be economically recoverable at copper prices substantially lower than those required for open pit mining of the J-A (although higher than current depressed prices). Block cave reserves would be sufficient to feed the present mill for approximately seventeen years at its current production rate.

Lake Zone Orebody

The Lake Zone, containing, depending on cutoff grade used, between 800 million tons of ore grading on average .46% copper and 1 billion tons of ore grading on average .42% copper, lies approximately 80% on Valley property and 20% on Bethlehem property. Because the orebody straddles the boundary between Bethlehem and Valley, it was early recognized as impractical, likely impossible, to develop two mines. Accordingly, in October 1969 Bethlehem and Valley entered into a letter of intent which contemplates the joint development of one mine in which Valley would have an 80% and Bethlehem a 20% interest, milling operations to be conducted separately. Valley's 1969 development plan did not proceed. Between 1970 and 1975 discussions were held from time to time. During late 1975 and throughout 1976 several alternative plans, each of which substantially enhances the value of the Lake Zone for both Valley and Bethlehem were put forward by Bethlehem.

In the course of the discussions between Valley and Bethlehem in 1975 and 1976:

- It became evident that inflating capital costs since 1969 had made Lake Zone development utilizing the present Bethlehem mill, expanded for the benefit of Valley, the most economic method of bringing the orebody into production.
- It was agreed that, as part of any Lake Zone development plan, Bethlehem would convert its Valley shares into a 4.1% direct interest in the Lake Zone, giving Bethlehem a 24.1% interest in the orebody plus its 2½% net smelter returns royalty over a large part of Valley's portion of the Lake Zone.
- Substantial accord was reached on mining plans, the cost of opening the Lake Zone, the method and cost of expanding the Bethlehem mill (to various capacities), constructing a new Valley mill and operating the mine and the two mills.
- Several methods of joint development were the subject of detailed discussion and study by Valley and Bethlehem including:
  - (a) A joint operating company into which all Highland Valley assets of both companies would be placed. This appeared from Bethlehem's studies the most attractive to both Valley and Bethlehem but was not acceptable to Valley.
  - (b) A joint venture between Bethlehem and Valley. This was acceptable to Bethlehem and Valley advised that the economic aspects were acceptable to it.

However, agreement was not concluded because of Valley's concern that myriad administrative details might arise during the term of a lengthy joint venture.

With a view to resolving Valley's concerns about the joint venture, on January 13, 1977 Bethlehem formally proposed to Valley the following development plan:

Stage 1—Initial Mine Development

Bethlehem would bear all cost of preparing the Lake Zone for mining at a rate of 30,000 tons per day and provide all required mining equipment.

Bethlehem would install a primary crusher adjacent to the planned Lake Zone pit, a conveyor system from that crusher to the present Bethlehem mill and all required ore stockpiling and feeding systems, expand its mill to process 30,000 tons of Lake Zone ore daily, expand tailings facilities and, if justified, install a molybdenum plant, all at Bethlehem's cost.

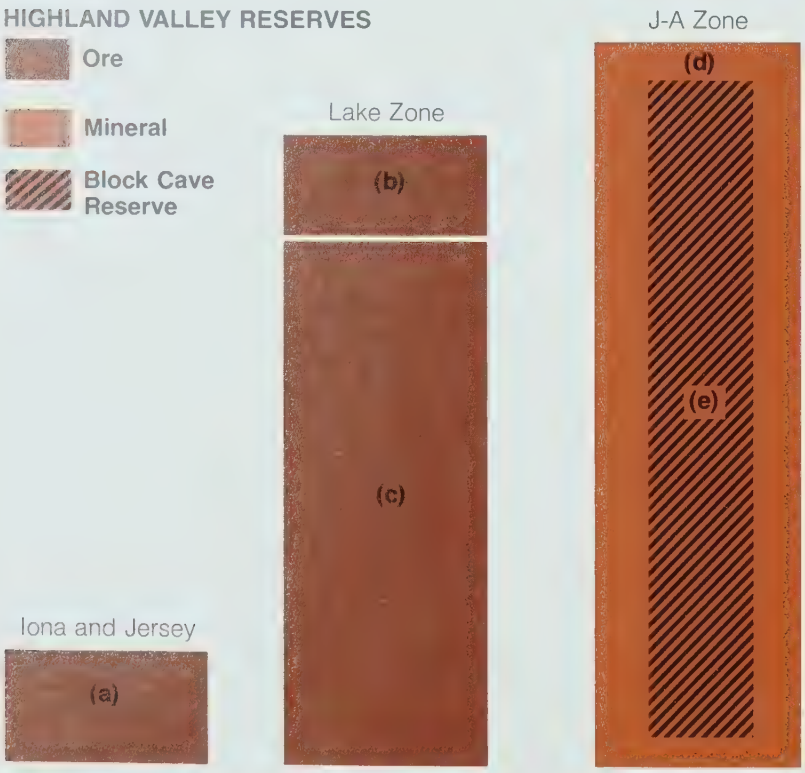
Bethlehem would receive 20,000 of the 30,000 ton throughput, paying Valley for ore received in excess of Bethlehem's 24.1% entitlement.

Valley would pay Bethlehem a milling fee in respect of ore processed through the Bethlehem mill for Valley's benefit and, while Bethlehem operates the mine, a mining fee.

Stage 2—Valley Copper Mill

Valley would build its own mill whenever it chose and at that time assume management of the mine, supplying at its cost the additional mining equipment necessary to expand the mine to ensure that both mills operate at full capacity. The proposal contemplates a minimum capacity of the Valley mill to be 50,000 tons per day. Bethlehem's entitlement from its own mill would then be the greater of 20,000 tons per day or 24.1% of the total ore processed through the two mills. Ore provided to Bethlehem beyond its entitlement would be paid for by Bethlehem as before, a milling fee would be paid by Valley in respect of ore processed through the Bethlehem mill for Valley's account and Bethlehem would pay Valley a mining fee.

Under this proposal development of the Lake Zone would proceed immediately, Bethlehem's existing mill, infrastructure and work force providing an efficient means for the project to quickly reach a two mill capacity of at least 80,000 tons per day. The advantages to Bethlehem include greatly extended mine life and improved profitability flowing from lower cost ore becoming available. Valley would, without initial investment, receive cash flow enabling it to retire its present debt,



(a) Presently being mined	— tons	44.9 million
	— grade	0.46% cu.
	— cutoff grade	0.25% cu.
(b) Bethlehem's 5.13% share interest in Valley Copper Mines Ltd. (N.P.L.)	— tons	43.0 million
	— grade	0.42% cu.
	— cutoff grade	0.25% cu.
(c) 20% direct interest in Lake Zone deposit	— tons	209.7 million
	— grade	0.42% cu.
	— cutoff grade	0.25% cu.
(d) Surface mining alternative	— tons	286.3 million
	— grade	0.43% cu. 0.017% mo.
	— cutoff grade	0.25% cu.
(e) Block caving alternative	— tons	130.0 million
	— grade	0.51% cu. 0.027% mo.
	— cutoff grade	0.40% cu.

forestall further interest accrual and, when convenient, could build its own mill with the assurance that its interest in the combined cash flows from the two mills would accelerate its return on investment.

Valley has not yet given any indication that it will accept Bethlehem's latest proposal and response to date has been limited.

Other Reserve Potential

The entire Highland Valley properties are continually under review. It was such a review that led to the discovery of the J-A Zone. Currently the area between the Iona and Jersey Mines is being drilled and drilling is planned south of the J-A Zone where percussion drilling has produced interesting results.

VALUATION OF HIGHLAND VALLEY ASSETS

In order to establish a reliable range of values for the Highland Valley assets, two methods of valuation were used.

Replacement Cost

Bethlehem's mill is currently appraised at $66.6 million by Wright Engineers Limited, independent mining consultants. The company's other fixed and movable assets utilized in current operations have an internally determined replacement value of $16.5 million. The Iona and Jersey Mines have been arbitrarily valued at $5 million and the J-A Zone, Maggie Mine and Lake Zone have been valued by escalating actual development costs by an appropriate factor from the date expenditures were incurred to present dollar equivalents. The aggregate of these values is $99.9 million or $15.91 per share.

Discounted Cash Flow

The current value statement, which forms part of the financial statements in this report, includes J-A and Maggie Mine values at their nominal replacement cost described in the preceding paragraph. However, in these statements the Iona and Jersey Mines have been valued by discounting after tax cash flow to be generated by mining of these reserves. The Lake Zone has been valued in a similar manner. The aggregate of these values as summarized in the current value statements is $85.6 million or $13.64 per share.

In determining values for the current value statements Lake Zone development was assumed to take place in a manner which may be more conservative than that actually followed and, more importantly, was assumed not to take place until early 1982. This delay substantially reduces discounted cash flow value.

During the 1975 and 1976 negotiations with Valley, financial studies were made of the various methods of development considered in detail by Valley and Bethlehem using assumptions substantially agreed upon by the two companies and in all cases assuming Lake Zone production started in 1979. Present value of after tax cash flow, net of recovery of all capital investment, forecast to be generated by these various methods for Bethlehem's account, discounted at various rates from 10% to 12% ranged from $70.9 million to $122.8 million.

While it is a valuable tool in appraising an orebody the discounted cash flow method is subject to valid criticism in that it seriously understates the value of very long term projects such as the Lake Zone. This understatement can be somewhat but not totally offset by arbitrarily using lower rather than higher discount rates.

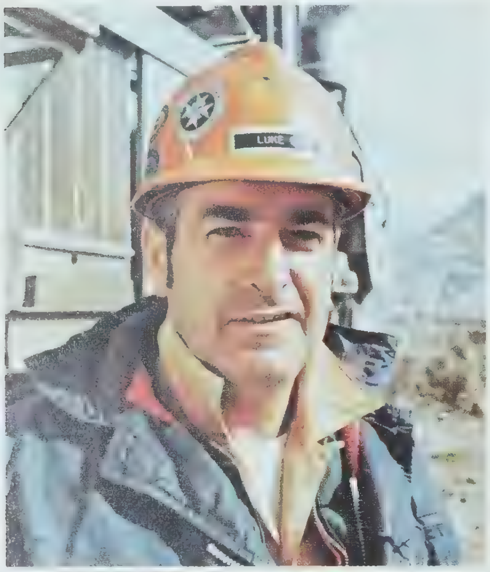
Unfortunately every valuation method has some disadvantage. It may therefore be useful in considering the Lake Zone to compare it with the adjacent Lornex Highland Valley mine. The Lornex orebody, although somewhat smaller than the Lake Zone is of a grade similar to that of the Lake Zone. It currently operates at approximately 45,000 tons per day. All of the methods of developing the Lake Zone considered to date by Bethlehem and Valley anticipate minimum eventual Lake Zone capacity of 80,000 tons per day. Operating costs are expected to be in the range of Lornex's and, because of utilization of the present Bethlehem mill, average capital costs on a per ton day basis are expected to be similar to Lornex's 1972 capital costs.

SUMMARY

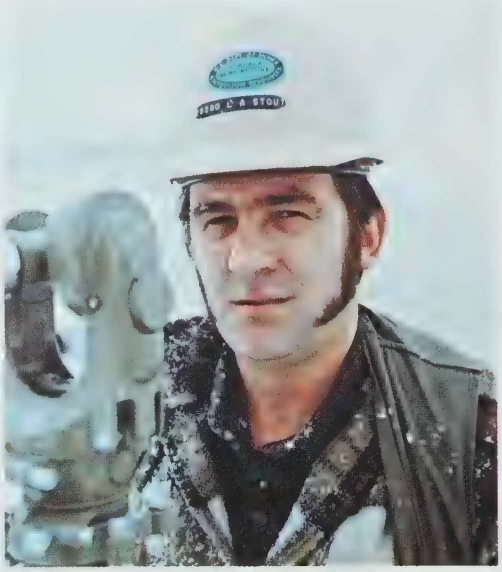
Replacement cost can be considered as a reasonably reliable but conservative base value for the Highland Valley assets as can the values for these assets contained in the current value statements. These values added to the values given Bethlehem's other assets in the current value statements give **a per share value of between $23 and $25**. As the above indicates, significantly greater per share values are supportable if less conservative assumptions are made regarding the timing and method of development of the Lake Zone orebody.

BETHLEHEM PEOPLE

A corporation is not a thing—it is a group of people combining their efforts in such a way as to efficiently achieve purposes that one person working alone could not do. The existence of a legal corporation only ensures that the desirable combination of effort will continue for a long time. These pages acknowledge just a few of the people who have made long term contribution to the corporate success of the Bethlehem group. Luke Kirby, Ken Lawn and Lawrence Stout, all of whom started with the company in 1961 when initial work was commenced on the Highland Valley property, are the first employees to reach 15 years of service. Since 1971, the first year in which long service employees were honoured at a "Ten Year



Luke Kirby
Assistant Mine Operating Superintendent



Lawrence Stout
Senior Mine Technician

Ken Lawn
Electrical Superintendent

Club" banquet, 61 employees have now joined that club. Bethlehem looks forward with confidence to establishing "Twenty" and "Thirty" year clubs honouring those who have helped us achieve the promise of a long future.

BUILDING FOR THE FUTURE

Bethlehem's recognition of the need to broaden its earnings base beyond the confines of a single resource has placed increasing emphasis on continuing exploration programs and the formulation of a corporate acquisition strategy designed to provide greater diversification.

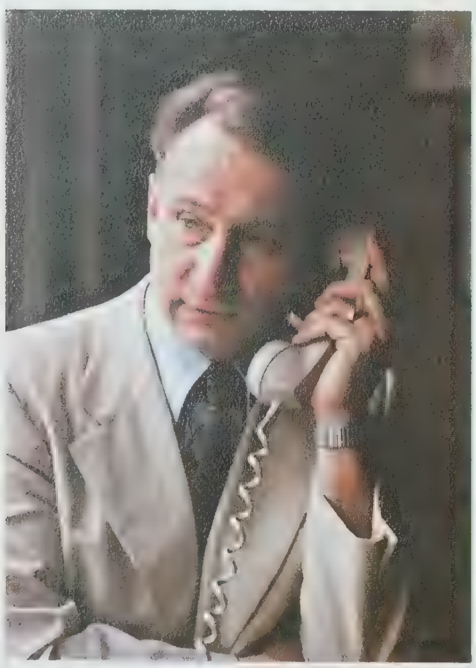
EXPLORATION

Bethlehem budgets about $1 million per year in its search for new mines. A great deal of planning goes into determining where these funds should be spent. Not only must one search for a favourable geological environment, but take into consideration government attitudes, taxation legislation, ownership laws, developed infrastructure, accessibility and climatic conditions.

The rich North American Cordilleran belt, within which large mineral deposits continue to be found, extends from Mexico to Alaska. During 1976 exploration endeavours were centred principally along this belt in Canada and the United States.

Because of the inherent risk element of exploration and ever inflating costs, Bethlehem has entered into joint venture exploration programs with other companies, allowing its exploration dollars to be spread over a larger number of prospects and permitting emphasis to be placed on a fairly broad spectrum of metals. This approach allowed Bethlehem in 1976 to participate in $2 million worth of exploration at a net cost of $1.3 million.

HENRY G. EWANCHUK,
B.Sc., P.Geol., P.Eng.
Vice President–Exploration



Increasing capital and operating costs and low copper prices have caused us to search for higher grade deposits than are typical of British Columbia porphyries. Lead and zinc prospects are also highly desirable since they may not have to compete with low cost sources in the future, as will manganese, nickel, copper and cobalt, if deep-sea nodule mining techniques develop as presently envisaged. The high prices commanded by gold, silver and uranium make these metals attractive, the latter especially so in this time of energy consciousness.

During 1976 exploration in the United States included the continuation of the Washington State reconnaissance program and the initiation of a grass-roots uranium program in selected parts of Colorado, Utah, Arizona and New Mexico; both resulted in some claim staking and follow-up work will continue in 1977.

Our Bethex subsidiary, based in Reno, assessed numerous properties in Nevada and its neighbouring states; several of these were optioned and investigated in detail with no significant discoveries being made to date.

With the improvements in the mineral taxation laws, 1976 saw a revival of exploration interest in British Columbia, as evidenced by the increased number of submittals from prospectors. Bethlehem too became involved in programs in various parts of the province and activity is expected to increase in 1977.

Both property and reconnaissance work were conducted in the Northwest Territories last summer. A drill program on the Bear-Twit claims indicated that the mineral occurrence was subeconomic and that further work was not warranted. Several blocks of claims were also investigated as part of the Arctic Red project which will be continued in 1977.

In eastern Canada the previously reported joint venture program in Newfoundland was terminated in midsummer, after the geophysical conductors proved to be of no economic interest. However, the search for massive sulphide targets is proceeding in Ontario and a gold prospect was recently staked in that province.

ACQUISITION

Bethlehem continues its search for a suitable investment in the natural resource field, placing equal emphasis on basic exploration and possible acquisition of producing metal and coal deposits in Canada and the United States. The long range forecast for coal's importance in the overall energy spectrum remains positive in both countries.

Bethlehem's purchase of an interest in Frio Oil Ltd. in 1971 is beginning to show results. In the space of little more than five years, from a zero base, Frio has secured a large land inventory and developed significant reserves of oil and gas. First production revenue was received in 1975 and it is expected that in 1977 revenue will approach $1 million. Bethlehem has a 37% equity interest in Frio.

RICHARD A. MUNDIE
Vice President–Corporate Planning and Development

Current internal appraisals have placed a present value of approximately $13 million on Frio assets. Of this value seventy percent is represented by oil and gas reserves while the remainder is attributed to the future exploration rights. Frio has interests in over 997,772 gross acres (262,823 net acres) of petroleum lands in the provinces of Alberta and British Columbia. Seismic exploration in excess of 1,200 miles has been conducted to date and seventy-three test holes drilled on the properties with a thirty-five percent success ratio.

During the past year participation in the development of two Canadian orebodies owned by other Canadian companies has been investigated, one of which is still under study while the other was found to be uneconomic under current market conditions.

Activities in the United States focused mainly on the possibility of acquiring a certain producing metallurgical coal company, prolonged study of which determined that the company did not meet Bethlehem's investment criteria. Bethlehem also undertook a review of a copper deposit, the development of which could not be justified at current copper prices and consideration is currently being given to participation with a substantial United States resource company in the development of a new lead mine.

As a matter of policy Bethlehem is prepared to participate in joint venture activities in developing new projects both in Canada and the United States. This approach will provide greater flexibility in the search for diversification within the field of natural resources.

The combined programs for diversification should enable Bethlehem to capitalize on a long term program designed to provide sound growth in a changing environment for the natural resources industry.

IS CURRENT VALUE REALLY PRESENT WORTH?

KEITH E. STEEVES, C.A.
Vice President–Finance and Treasurer

Bethlehem's annual reports for 1974 and 1975 stressed the need to recognize the effect of inflation in financial records and in taxing legislation. This year's balance sheet contains a restatement of accounts developed by applying current value accounting techniques which, it is felt, are more suitable than price level accounting as a method for demonstrating the effects of inflation on your company.

When reviewing the current value information, it should be borne in mind that a great degree of judgment has necessarily been exercised in assigning values to those areas where market information is not readily available. Assets not readily marketable are difficult to value, unlike such things as cash and traded securities. Mineral properties which are not currently in production or scheduled for production are good examples of assets which, being seldom traded, have no ready market.

Bethlehem's operating Iona and Jersey mines, equipment and support facilities can with assurance be assigned a present value by making arbitrary, but realistic, assumptions of metal prices and costs, and discounting to present dollar equivalents future cash flows to be produced by those assets. However, when placing a present value on the other ore reserves in Highland Valley which will eventually be processed through existing mill facilities, one must make assumptions about the timing of commencement of production. The date of commencement of Lake Zone production, though Bethlehem considers it to be presently economic, is dependent on a development decision by Valley Copper. While it is hoped that Lake Zone production will come sooner, it has been assumed for present valuing purposes that it will not occur until 1982. As in the case of the Iona and Jersey orebodies, the present value of the Lake Zone has been calculated by anticipating future metal prices, operating costs and the additional capital costs required to place the orebody into production and discounting to present dollars the resultant cash flows.

Recent studies based on block caving techniques indicate that the J-A orebody may be brought into production much sooner than previously anticipated although an actual production date is still uncertain. Existing mill capacity should be adequate if these studies confirm that the J-A can be brought into production upon exhaustion of the Iona and Jersey ore reserves. However, a decision by Valley to place the Lake Zone orebody into production would make it necessary for Bethlehem to expand the mill capacity to allow processing of ore from both Lake Zone and J-A when the Iona and Jersey Mines phase out. This would affect the present value of the J-A because the costs of developing it would then likely include some cost of mill expansion. Because of these uncertainties, the J-A has been assigned a present value limited to replacement cost. If there were an established market for ore reserves, which there is not, the best evidence of replacement cost would, of course, be the price required to purchase a similar orebody. The logical alternative used in these statements was to take actual J-A development costs and escalate them, by an appropriate factor, from the date expenditures were incurred to their present dollar equivalent. The weakness in this alternative is that it assigns the orebody no "discovery" value, an important factor when one considers the thousands of prospects that must be culled to find a mine.

Though somewhat more remote in development potential than the J-A, it is believed that the Maggie property will also be a producing mine at some future date. Accordingly, it was afforded the same current value treatment as the J-A.

Calculations have been limited to valuing the physical assets of the company, no attempt being made to assess the worth of so-called intangible assets, such as the trained work force, the technical expertise of management, the relationships with customers, suppliers and the financial community. All are recognized assets of the company.

Current values recorded in the balance sheet for this year have been prepared considering all these factors. As noted at the outset, one must remember that the current values have been based on management's best judgments formed under conditions existing at the time the statements were prepared. As economic conditions affect the assumptions used in preparing the calculations, the resultant current values will change. For this reason, it will always be difficult to compare current values for one year with those of another year even if assets remain the same.

Despite recognized shortcomings of current value calculations, it is believed the information provided will assist shareholders in making a realistic assessment of their company.

BETHLEHEM COPPER CORPORATION
1976 FINANCIAL STATEMENTS

Consolidated Balance Sheet
December 31, 1976 and 1975

ASSETS

CURRENT VALUE (in thousands) 1976 (Unaudited—Note 9)		(in thousands) 1976	1975 (Restated)
	Current Assets:		
$ 44,817	Cash and short-term deposits	**$ 44,817**	$ 53,509
9,849	Marketable securities, at lower of cost or market (market value $9,849; 1975—$7,156)	**8,870**	6,975
514	Accounts receivable	**514**	996
106	Income and other taxes receivable	**115**	—
	Inventories—		
5,380	Concentrate (Note 2)	**5,380**	2,865
4,146	Materials and supplies, at average cost	**3,776**	3,754
$ 64,812	Total current assets	**$ 63,472**	$ 68,099
$ 4,075	**Investments** (Note 3)	**$ 2,047**	$ 1,893
	Capital Assets, at cost:		
	Buildings, equipment and roads	**$ 38,230**	$ 31,808
	Less: Accumulated depreciation	**14,680**	11,936
		$ 23,550	$ 19,872
	Mineral claims	**334**	375
	Land	**2,472**	2,392
$ 85,637		**$ 26,356**	$ 22,639
$154,524		**$ 91,875**	$ 92,631

On behalf of the board:

J.A. McLallen, Director

P.M. Reynolds, Director

The accompanying notes to consolidated financial statements are an integral part of this statement.

LIABILITIES AND SHAREHOLDERS' EQUITY

	(in thousands)		CURRENT VALUE (in thousands)
	1976	1975 (Restated)	1976 (Unaudited—Note 9)
Current Liabilities:			
Accounts payable and accrued liabilities	**$ 7,245**	$ 4,166	$ 7,245
Income and other taxes payable	**—**	2,623	—
Total current liabilities	**$ 7,245**	$ 6,789	$ 7,245
Long-Term Liabilities	**$ 480**	$ 502	$ 337
Accumulated Provision for Future Income and Resource Taxes	**$ 3,139**	$ 2,486	$ 2,231
Shareholders' Equity:			
Share capital (Note 4)—			
Outstanding—			
6,471,297 shares without par value			
(1975—6,442,797 shares)	**$ 3,495**	$ 3,264	
Contributed surplus	**24,274**	24,274	
Retained earnings	**55,415**	57,489	
	$ 83,184	$ 85,027	
Less: 193,600 shares owned by the Company	**2,173**	2,173	
	$ 81,011	$ 82,854	$144,711
	$ 91,875	$ 92,631	$154,524

Consolidated Statement of Earnings

for the years ended December 31, 1976 and 1975

	(in thousands)	
	1976	1975 (Restated)
Revenues:		
Concentrate sales	**$ 24,374**	$ 22,800
Interest and investment income	**4,504**	4,461
	$ 28,878	$ 27,261
Expenses:		
Cost of sales and general and administrative	**$ 22,054**	$ 17,416
Depreciation	**3,241**	2,361
Exploration	**1,296**	936
	$ 26,591	$ 20,713
	$ 2,287	$ 6,548
Income and Resource Taxes (Note 7)	**896**	4,127
Earnings before extraordinary item	**$ 1,391**	$ 2,421
Extraordinary Item:		
Share of gain on sale of petroleum properties by an unconsolidated affiliate	**294**	—
Net Earnings (Note 2)	**$ 1,685**	$ 2,421
Earnings per Share (Note 8):		
Before extraordinary item	**$ .22**	$ .39
After extraordinary item	**$ .27**	$ .39

Consolidated Statement of Retained Earnings

for the years ended December 31, 1976 and 1975

	(in thousands)	
	1976	1975 (Restated)
Balance, Beginning of Year, as restated (Note 2)	**$ 57,489**	$ 58,819
Add: Net earnings (Note 2)	**1,685**	2,421
	$ 59,174	$ 61,240
Deduct: Dividends (Note 4)	**3,759**	3,751
Balance, End of Year	**$ 55,415**	$ 57,489

The accompanying notes to consolidated financial statements are an integral part of these statements.

Consolidated Statement of Changes in Financial Position

for the years ended December 31, 1976 and 1975

	(in thousands) 1976	1975 (Restated)
Working Capital Provided From:		
Earnings before extraordinary item	$ 1,391	$ 2,421
Add: Expenses not requiring an outlay of working capital—		
Depreciation	3,241	2,361
Provision for future taxes	653	686
Other	181	183
	$ 5,466	$ 5,651
Sale of capital assets	715	245
Issue of shares	231	47
	$ 6,412	$ 5,943
Working Capital Applied To:		
Purchase of capital assets	$ 7,714	$ 4,460
Dividends	3,759	3,751
Repayment of long-term debt	22	108
Investments	—	133
	$ 11,495	$ 8,452
Decrease in working capital	$ 5,083	$ 2,509
Working Capital, Beginning of Year	61,310	63,819
Working Capital, End of Year	$ 56,227	$ 61,310

The accompanying notes to consolidated financial statements are an integral part of this statement.

Notes to Consolidated Financial Statements

December 31, 1976 and 1975

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Consolidation

The accounts of those subsidiary companies in which the Company holds at least a 50% ownership interest are consolidated in these statements. The Company's interest in affiliated companies, in which it has significant but not majority share ownership, is accounted for on the equity method.

(b) Currency Translation

Current assets in U.S. funds were translated into Canadian funds at the rate of exchange applicable at the balance sheet date.

(c) Exploration and Development Costs

Exploration and development costs are expensed until an orebody is considered to have economic feasibility, at which time all further costs are capitalized and written-off against future production revenue from that orebody.

(d) Depreciation

Depreciation of mine buildings, mill equipment and roads is on a straight-line basis over the estimated life of the ore reserves available to the mill. Mobile equipment is depreciated on a unit-of-use basis over its estimated productive life. Surface and mineral rights are recorded at original cost without amortization.

(e) Concentrate Sales

Prior to 1976, the Company recorded as revenue the net realizable value of concentrate when produced based on average metal prices for the month of production. The Company has revised its accounting policy to record revenue at the time of shipment to customers. Concentrate inventories are adjusted at the end of each accounting period to the lower of production cost or net realizable value. The comparative financial information for the year ended December 31, 1975 has been restated to conform to the present accounting policy.

2. RESTATEMENT OF 1975 CONSOLIDATED FINANCIAL STATEMENTS

The 1975 consolidated financial statements have been restated as follows:

	(in thousands)
Retained earnings—	
Balance, beginning of year, as previously reported	$ 58,885
Adjustment, net of taxes, for the change in the accounting policy for concentrate sales as set out in Note 1	(205)
Overprovision of the 1974 Mineral Land Tax	139
As restated	$ 58,819
Net earnings—	
As previously reported	$ 2,390
Adjustment for the change in accounting policy, as above	205
Adjustment, net of taxes, for additional smelter charges payable in accordance with an arbitration decision	(174)
As restated	$ 2,421

3. INVESTMENTS

The Company holds the following investments:

			(in thousands)	
Investments in Unconsolidated Affiliates	**Approx. Ownership**	**Recorded At**	**1976**	**1975**
Frio Oil Ltd.	36.5%	Equity	$ 474	$ 194
Minera Xitle S.A. de C.V.	49%	Equity	27	37
Other Investments				
Ionarc Smelters Ltd.	10%	Lower of cost or market	90	118
Valley Copper Mines Limited (N.P.L.)	5%	Cost	1,046	1,046
Other shares		Lower of cost or market	—	60
Employee housing agreements and property		Cost	301	330
Bonds, debentures and miscellaneous investments		Lower of cost or market	109	108
			$ 2,047	$ 1,893

The quoted value of marketable securities included above was $3,105,000 at December 31, 1976 and $4,442,000 at December 31, 1975.

4. SHARE CAPITAL

The authorized capital of the Company comprises 10,000,000 Class A and 10,000,000 Class B shares. The two classes of shares are freely inter-convertible and have the same rights in every respect. The Company distributes tax paid dividends on Class B shares by paying a 15% tax on certain surplus accounts of the Company from which the dividends are paid. The dividends on Class B shares are, therefore, 15% less than the dividends paid on Class A shares. As at December 31, 1976, 6,312,209 Class A shares (193,600 of which were owned by the Company) and 159,088 Class B shares were outstanding.

As at December 31, 1976, officers and employees held unexercised options to purchase a total of 155,000 shares exercisable in varying amounts to December 31, 1981, at prices ranging from $9.56 to $12.00 per share. Options for

28,500 shares were exercised during the year ended December 31, 1976, for a total cash consideration of $231,000. Options to purchase 145,000 shares at prices ranging from $11.14 to $12.00 per share were granted during the year.

Regulations made pursuant to the Anti-Inflation Act limit the amount of dividends which the Company may pay during the twelve months ending October 13, 1977, to a maximum of 86.4¢ per share.

5. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate direct remuneration of directors and senior officers for the year ended December 31, 1976 amounted to $549,000 (1975—$547,000).

6. PENSION AND RETIREMENT PLANS

The Company has two voluntary pension plans for staff employees. The basic plan covers all staff employees who elect to participate and the executive plan provides supplementary pension benefits to 11 senior management personnel. Company policy is to currently fund all pension costs, including past service costs, and to update actuarial valuations once every three years. Actuarial valuations obtained as at December 31, 1974 indicated that pension plan assets exceeded vested benefits.

7. MINERAL LAND TAX ACT

The provisions of the British Columbia Mineral Land Tax Act, as they relate to the assessments based on the value of the Company's production, were rescinded effective January 1, 1976.

An action commenced in 1975 by the Company, together with 17 other mining companies, to challenge the constitutionality of the Act was discontinued. Subsequent to December 31, 1976, the Company commenced a separate action challenging the validity of the Regulations made pursuant to the Act, under which a total of $1,774,000 was paid in respect of the years ending December 31, 1975 and 1974.

8. EARNINGS PER SHARE

Earnings per share on Class A and Class B shares are based on the weighted average number of shares outstanding during the year. The exercise of the share options referred to in Note 4 would not have a dilutive effect on the earnings per share.

9. SIGNIFICANT ACCOUNTING POLICIES FOR CURRENT VALUE ACCOUNTS (unaudited)

The underlying principle in determining the current value of assets is to state them at their fair market value or replacement value.

The value of ore reserves considered economic under present conditions and the plant and equipment that will be used in exploiting the reserves has been determined by estimating future cash flows (net of future taxes) expected from such production and by discounting those cash flows to present dollar equivalents.

Mineral deposits not currently scheduled for production have been valued by restating the costs incurred in determining the reserves to present dollar equivalents. The methods used to determine the current values of ore reserves and related capital assets are described more fully on pages 8 to 11 and 16 of this annual report.

Marketable securities are stated at quoted market; materials and supplies at replacement cost; investments at appraised values; long-term liabilities and accumulated provision for future income and resource taxes at present dollar equivalents of future payments.

Auditors' Report

To the Shareholders,
BETHLEHEM COPPER CORPORATION:

We have examined the consolidated balance sheet of BETHLEHEM COPPER CORPORATION (a British Columbia company) and subsidiaries as of December 31, 1976 and 1975, and the consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Bethlehem Copper Corporation and subsidiaries as of December 31, 1976 and 1975 and the results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis after giving retroactive effect to the change in the timing of the recognition of concentrate sales, as explained in Note 1 to the consolidated financial statements.

The accompanying consolidated current value balance sheet of Bethlehem Copper Corporation as of December 31, 1976 has been prepared on the basis summarized in Note 9 to the consolidated financial statements and in pages 8 to 11 and 16 of this annual report. Because future developments could significantly change estimated values, there can be no assurance that estimates of values reflected in the current value balance sheet may not change. We have not audited the consolidated current value balance sheet and, therefore, express no opinion on it.

March 15, 1977
Vancouver, Canada.

ARTHUR ANDERSEN & CO.
Chartered Accountants

Five Year Summary

(all dollar amounts in thousands except per share figures)

OPERATIONS	1976	1975	1974	1973	1972
Concentrate sales	**$ 24,374**	$ 22,800	$ 40,001	$ 49,712	$ 23,382
Average price per lb. of copper—U.S. cents	**63.70**	56.02	93.41	80.00	48.36
Investment income	**$ 4,798**	$ 4,461	$ 4,865	$ 3,622	$ 2,331
Net earnings	**$ 1,685**	$ 2,421	$ 9,679	$ 20,352	$ 8,693
—per share	**$ .27**	$ .39	$ 1.52	$ 3.17	$ 1.36
Number of shares issued	**6,277,697**	6,249,197	6,241,697	6,422,897	6,397,797
Dividends on shares	**$ 3,759**	$ 3,751	$ 5,126	$ 4,491	$ 3,837
—per share	**$ .60**	$ .60	$ .80	$ .70	$ .60
Capital expenditures	**$ 6,999**	$ 4,215	$ 6,952	$ 937	$ 2,943
Employment					
—employment cost	**$ 7,252**	$ 6,197	$ 6,041	$ 5,077	$ 4,743
—number of employees	**402**	398	408	390	400
Exploration expense	**$ 1,296**	$ 936	$ 2,814	$ 5,445	$ 456
Income and resource taxes	**$ 896**	$ 4,127	$ 10,214	$ 10,422	$ 495
Production					
—dry tons milled (000)	**7,456**	6,465	6,346	6,339	5,965
—average head grade—%	**.44**	.47	.51	.58	.54
—pounds of copper produced (000)	**55,123**	54,630	57,089	67,086	58,244
FINANCIAL POSITION					
Assets employed:					
Current Assets	**$ 63,472**	$ 68,099	$ 68,190	$ 68,731	$ 38,823
Deduct: Current Liabilities	**7,245**	6,789	4,302	6,830	3,658
Working capital	**$ 56,227**	$ 61,310	$ 63,888	$ 61,901	$ 35,165
Capital assets	**26,356**	22,639	20,916	16,309	21,744
Investments	**2,047**	1,893	1,640	2,452	2,444
	$ 84,630	$ 85,842	$ 86,444	$ 80,662	$ 59,353
Represented by:					
Long-term debt	**$ 480**	$ 502	$ 440	$ 535	$ 623
Accumulated provision for future income and resource taxes	**3,139**	2,486	1,800	1,546	4,835
Shareholders' equity	**81,011**	82,854	84,204	78,581	53,895
	$ 84,630	$ 85,842	$ 86,444	$ 80,662	$ 59,353
Return on Assets employed	**2.0%**	2.8%	11.2%	25.2%	14.6%
Return on shareholders' equity	**2.1%**	2.9%	11.5%	25.9%	16.1%
Price range of shares traded on Toronto Stock Exchange	**$14¾-10⅜**	$13-8½	$16½-8½	$18-13	$23-14

Results for 1972 and 1973 have not been restated for the change in accounting policy for concentrate sales as set out in Note 1 to the financial statements. The cumulative effect has been included in the 1974 results.

BETHLEHEM COPPER CORPORATION ANNUAL REPORT, 1976

STATEMENT OF CHANGES IN FINANCIAL POSITION

	First Six Months of Fiscal Year 1976	1975 (Restated)
Working Capital provided from:		
Net earnings	$1,360,527	$1,120,376
Add: Expenses not requiring an outlay of working capital —		
Depreciation and amortization	1,455,720	1,086,338
Provision for future taxes	417,942	414,216
	$3,234,189	$2,620,930
Proceeds from issue of shares	94,625	25,000
	$3,328,814	$2,645,930
Working capital applied to:		
Dividends	$1,877,633	$1,876,714
Capital assets	2,677,043	3,057,380
Investments	20,477	76,956
	$4,575,153	$5,011,050
DECREASE IN WORKING CAPITAL	$1,246,339	$2,365,120

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REPORT TO THE SHAREHOLDERS

April - May - June 1976

Suite 2100, Guinness Tower,
1055 West Hastings Street,
Vancouver, B.C. V6E 2H8

Bethlehem Copper Corporation

BETHLEHEM COPPER CORPORATION

REPORT TO SHAREHOLDERS

In our report of April 30th, 1976 covering the first quarter of the year, we stated that the new Government which was elected in British Columbia in December 1975 had as its policy a revision of mine taxation which would result in a tax on profits to replace the tax based on product sales. Since then legislation has been passed and the combined British Columbia and Federal Government tax on mining is now a maximum of approximately 57% of profits. This is a welcome change, but mining is still taxed at a higher rate than the manufacturing industry in Canada. We consider it necessary for the Federal Government to review its taxation legislation to give consideration to more favorable tax rates and a system of inflation accounting such as was described in our Annual Report for the year 1975.

LABOUR AGREEMENT

Bethlehem's agreement with the Canadian Association of Industrial Mechanical and Allied Workers, which expires on June 30th, 1977, contains a provision for renegotiation of wages at July 1st, 1976. We are happy to report that such negotiation was satisfactorily concluded.

DIVIDEND

The regular dividend of 15¢ on Class A shares and a tax paid dividend of 12.75¢ on Class B shares will be paid on September 17th to all shareholders of record on September 1st, 1976.

July 20th, 1976

PATRICK M. REYNOLDS
President

SUMMARY OF OPERATING RESULTS

(Figures subject to Audit)

	Three Months Ended June 30		First Six Months of Fiscal Year	
	1976	1975 (Restated)	1976	1975 (Restated)
Mill feed (dry) average per operating day ... Tons	21,260	19,458	20.992	19,188
Grade of ore — copper ... %	.44	.47	.44	.47
Concentrate grade ... %	36.31	31.89	35.43	33.20
Copper produced ... Pounds	13,729,976	13,909,602	27,138,713	24,547,614
Copper shipped ... Pounds	18,818,902	16,021,873	28,501.156	20,985,771
Average copper price per pound ... Canadian cents	67.72	58.42	64.00	59.10
CONCENTRATE REVENUE	$ 9,952,870	$ 7,490,635	$14,464,852	$10,011,223
Cost of sales	$ 8,951,906	$ 6,186,544	$13,030,600	$ 8,534,768
Exploration and development	355,880	398,305	597,012	569,020
	$ 9,307,786	$ 6,584,849	$13,627,612	$ 9,103,788
Earnings from mining operations before taxes	$ 645,084	$ 905,786	$ 837,240	$ 907,435
Provision for Province of British Columbia taxes				
Mineral land tax (royalties)	$ (189,235)	$ 297,416	$ —	$ 396,930
Mineral resource tax (mining tax)	139,691	105,298	152,386	105,298
Corporation tax	109,489	156,514	124,489	188,514
	$ 59,945	$ 559,228	$ 276,875	$ 690,742
Provision for federal government income tax	122,633	181,469	169,945	196,949
Total tax provided on mining operations	$ 182,578	$ 740,697	$ 446,820	$ 887,691
Profit from mining operations	$ 462,506	$ 165,089	$ 390,420	$ 19,744
INTEREST INCOME	$ 980,757	$ 1,070,019	$ 1,863,191	$ 2,256,154
Provision for taxes on interest income	467,677	548,026	893,084	1,155,522
Net interest income	$ 513,080	$ 521,993	$ 970,107	$ 1,100,632
NET EARNINGS	$ 975,586	$ 687,082	$ 1,360,527	$ 1,120,376
EARNINGS PER WEIGHTED AVERAGE OF SHARES OUTSTANDING				
— 6,261,697 shares outstanding	15.6¢		21.7¢	
— 6,245,697 shares outstanding		11.0¢	16,000 more	17.9¢

STATEMENT OF CHANGES IN FINANCIAL POSITION

	First Six Months of Fiscal Year 1977	1976
Working Capital provided from:		
Net earnings	$ 639,000	$ 1,361,000
Add: Expenses not requiring an outlay of working capital —		
Depreciation	2,129,000	1,456,000
Provision for future taxes	(213,000)	418,000
	$ 2,555,000	$ 3,235,000
Proceeds from issue of shares	296,000	94,000
	$ 2,851,000	$ 3,329,000
Working Capital applied to:		
Dividends	$ 1,884,000	$ 1,878,000
Capital assets	537,000	2,677,000
Investments	39,000	20,000
	$ 2,460,000	$ 4,575,000
INCREASE (DECREASE) IN WORKING CAPITAL	$ 391,000	$ (1,246,000)
Working capital, beginning of year	56,227,000	61,310,000
WORKING CAPITAL, END OF PERIOD	$56,618,000	$60,064,000

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Suite 2100, Guinness Tower,
1055 West Hastings Street,
Vancouver, B.C. V6E 2H8

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REPORT TO THE SHAREHOLDERS

April - May - June
1977

Bethlehem Copper Corporation

BETHLEHEM COPPER CORPORATION

REPORT TO SHAREHOLDERS

The price of copper quoted on the London Metal Exchange continued to decline during the second quarter of 1977. The resultant reduction of mine income was partially offset by the continuing depreciation of the Canadian dollar and by a stabilization of mine operating costs. Due to the large inventory of copper overhanging world markets, no substantial increase in copper prices is foreseen in the short term.

The exploration season is well underway and the Company is involved in a total of 19 projects in Canada and the western United States. Significant results will be reported to shareholders if and when achieved.

LABOUR AGREEMENT

Bethlehem's agreement with the Canadian Association of Industrial, Mechanical and Allied Workers expired June 30, 1977. A 2 year contract package agreed upon by Company and union negotiators and recommended to the 340 Union members was rejected by 85 out of the 151 employees who voted on it. The Union is presently on strike.

DIVIDEND

The regular dividend of 15¢ on Class A shares and a tax paid dividend of 12.75¢ on Class B shares will be paid September 16, 1977 to all shareholders of record on September 1, 1977.

August 4, 1977

BRYAN J. REYNOLDS
President

SUMMARY OF OPERATING RESULTS
(Figures subject to Audit)

		Three Months Ended June 30		First Six Months of Fiscal Year	
		1977	**1976**	**1977**	**1976**
Mill feed (dry) average per operating day	Tons	20,497	21,260	20,324	20,992
Grade of ore — copper	%	.45	.44	.44	.44
Concentrate grade	%	44.57	36.31	44.55	35.43
Copper produced	Pounds	14,173,000	13,730,000	27,287,000	27,139,000
Copper shipped	Pounds	16,389,000	18,819,000	37,855,000	28,501,000
Average copper price per pound	Canadian cents	63.77	67.72	65.66	64.00
Revenues					
Concentrate sales		$ 8,471,000	$ 9,953,000	$19,599,000	$14,465,000
Interest and investment income		1,074,000	980,000	2,232,000	1,863,000
		$ 9,545,000	$10,933,000	$21,831,000	$16,328,000
Cost of sales and general and administrative		$ 9,057,000	$ 8,952,000	$19,962,000	$13,031,000
Exploration		559,000	356,000	768,000	597,000
		$ 9,616,000	$ 9,308,000	$20,730,000	$13,628,000
Earnings (loss) before taxes		$ (71,000)	$ 1,625,000	$ 1,101,000	$ 2,700,000
Provision for income and resource taxes		(58,000)	649,000	507,000	1,339,000
		$ (13,000)	$ 976,000	$ 594,000	$ 1,361,000
Share of net earnings of non-consolidated affiliates		25,000	—	45,000	—
NET EARNINGS		$ 12,000	$ 976,000	$ 639,000	$ 1,361,000
EARNINGS PER WEIGHTED AVERAGE OF SHARES OUTSTANDING:					
1977 — 6,302,697 shares		.2¢		10.2¢	
1976 — 6,261,697 shares			15.6¢		21.7¢

REPORT ON THE ANNUAL MEETING OF SHAREHOLDERS

JUNE 9, 1977

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BETHLEHEM COPPER CORPORATION
Suite 2100 Guinness Tower
1055 West Hastings Street
Vancouver, B.C.
V6E 2H8

1977 ANNUAL MEETING OF SHAREHOLDERS

The 1977 annual meeting of shareholders, held in Park Ballroom "C" at the Four Seasons Hotel in Vancouver, B.C., on June 9th, 1977, was conducted by John A. McLallen, Chairman of the Board. Of the 110 persons present 49 were shareholders. There were 4,742,681 shares represented at the meeting in person or by proxy, which represents 75.5% of the shares eligible to vote.

Directors

Directors elected for the ensuing year were:

Tryggve Angel	Stockholm
Sven Nils Ersman	Stockholm
John A. McLallen	Vancouver
William H. McLallen, Jr.	Vancouver
Plato Malozemoff	New York
Hugh A. Martin	Vancouver
The Hon. John L. Nichol	Vancouver
Kunio Ohta	Tokyo
Bryan J. Reynolds	Vancouver
Patrick M. Reynolds	Vancouver
Alan G. Thompson	Calgary
Jack E. Thompson	New York

Officers

Officers appointed by the Directors were:

John A. McLallen	Chairman of the Board
Patrick M. Reynolds	Vice Chairman
Bryan J. Reynolds	President and Chief Executive Officer
Keith E. Steeves	Treasurer
Donald W. J. Specht	Secretary
William J. Boden	Assistant Treasurer

Honorary Positions

Herman H. Huestis	Honorary Vice Chairman
Richard F. Dooley	Honorary Vice President

Vice Presidents

Henry G. Ewanchuk	Exploration
Thomas P. Liss	Operations
Richard A. Mundie	Corporate Planning and Development
Donald W. J. Specht	General Counsel
Keith E. Steeves	Finance

Auditors

Arthur Andersen & Co. were re-appointed Auditors of the Company.

SUMMARY OF PROCEEDINGS

The Chairman welcomed shareholders and guests and called upon the following who addressed the meeting:

Thomas P. Liss,
Vice President—Operations
advised that mining in the Huestis pit was phased out toward the end of 1976 and all available equipment was moved into the Jersey pit extension project. At present ore is mined in both the Jersey and Iona pits. Waste removal is heavy and for every 1 ton of ore mined, 3 tons of waste are moved. This program will continue for approximately 3 years and then the stripping ratio will fall to 1 ton of waste for each ton of ore mined.

Mr. Liss reported that the capital program devoted to replacement of smaller mine equipment started 3 years ago is complete and that the company is now using nineteen 100-ton trucks, three 13-yard shovels and two 12-yard mobile loaders.

Mr. Liss advised that the current labour contract expires in June 1977 and that negotiations are presently taking place.

Henry G. Ewanchuk,
Vice President—Exploration
reviewed the company's exploration activities and advised that during 1977 emphasis will be placed on joint venture exploratory programs in which Bethlehem either retains a participating interest or functions as project manager and operator. Currently, Bethlehem is managing a total of 9 joint ventures and is participating in 6 others. In addition, Bethlehem has 100% interest in 7 projects. The exploration budget amounts to more than $1 Million, excluding head office costs, but with joint venture participation the company is involved in over $1.6 Million of exploration work.

This summer 12 projects are planned in British Columbia, 8 of which Bethlehem is operating, in the search for various types of metal deposits. Preliminary discussions are taking place with a Japanese group regarding the possibility of a long term farmout of the coal property at Princeton, British Columbia, in which Bethlehem has an

interest. The company is continuing its participation in syndicates in the Northwest Territories and Ontario. In Washington, the company is conducting reconnaissance mapping and soil sampling. Two years ago an exploration office was established in Reno, Nevada, and to date one property has been optioned and explored, with negative results, and work on another is currently in progress. Work is also being done in Arizona and on a limited scale in Ireland.

ADDRESS BY BRYAN J. REYNOLDS
President

"The Annual Report contains a detailed review of Bethlehem's Lake Zone interests and the efforts we have made to have it placed into production. I will not repeat them here. However, as the Lake Zone is Bethlehem's largest undeveloped asset I think a few additional comments are warranted.

Discussions with respect to Lake Zone development have been conducted by Bethlehem and Cominco, off and on, since 1969. For several years attention has focused on joint ventures and similar joint development schemes. In fact, the first serious consideration given to a joint venture was in March 1973 when Bethlehem and Cominco retained James and Buffam, Consulting Engineers, to value a proposed joint venture. The values contained in the James Report were not acceptable to Cominco.

Since 1973 it has become increasingly evident that inflated capital costs have made Lake Zone development utilizing an expanded Bethlehem mill the most economic method, for Valley, of bringing that orebody into production. During 1975 and 1976 several approaches to joint development were considered and several proposals made by Bethlehem. None of these was acceptable to Cominco primarily because of Cominco's concerns, in principle, about joint ventures. Bethlehem's January 1977 offer with respect to Lake Zone development, set out in detail in the Annual Report, attempts to deal with these concerns.

The first stage of the offer would allow Bethlehem to proceed immediately in a manner which would give Valley some of the benefits to be derived from the existence of Bethlehem's mill. In this stage Bethlehem would bear all costs of placing the Lake Zone into production at a rate of 30,000 tons per day and expanding its mill as necessary to process this tonnage. Bethlehem would receive 20,000 of the 30,000 ton daily throughput and 10,000 tons would be custom mined and milled for Valley.

We have prepared detailed financial studies of our proposal using an average copper price over the life of the project, expressed in 1977 dollars, of $.90 per pound, the price used by ourselves and Cominco in our respective internal studies. OUR STUDIES INDICATE THAT THE FIRST STAGE, IN WHICH VALLEY WOULD MAKE NO INVESTMENT, WOULD GIVE VALLEY AN AVERAGE ANNUAL NET CASH FLOW OF APPROXIMATELY $4,000,000.

Stage two is intended to allow Cominco to decide on its own when it wishes to cause Valley to build its own mill which Valley would do at its own cost. The proposal contemplates the minimum capacity of the Valley mill to be 50,000 tons per day.

In our financial studies of the second stage we have assumed Valley would expend $250,000,000, borrowing all of it. THESE STUDIES INDICATE THAT IT WOULD TAKE VALLEY ABOUT FIVE YEARS TO REPAY THIS DEBT FOLLOWING WHICH ITS NET CASH FLOW, EXPRESSED IN 1977 DOLLARS, (NOT INFLATED DOLLARS) WOULD AVERAGE OVER $25,000,000 PER YEAR.

Our studies certainly indicate the viability and profitability of Lake Zone development when copper is selling at $.90 per pound and lower. However, all of you are aware of the present depressed state of copper prices and the adverse affect these prices are having on Bethlehem and other British Columbia copper producers. It therefore is helpful in evaluating the Lake Zone to take a look at how Valley would have done in 1976 when the average price received by Bethlehem for copper was $.64.4 per pound.

Our calculations indicate that if stage one of our January 1977 offer had been in place during 1976, Valley would have had a net cash flow of approximately $1.3 million. If stage two had been in place during that year, Valley would have had a net cash flow of between $14,000,000 and $20,000,000 (the exact amount would depend on the amount of debt outstanding in that hypothetical year).

However, one would not expect the Lake Zone to proceed if one anticipated $.64 copper when the development is to come onstream. In the Annual Report of Valley and at its

recent annual meeting Mr. Rothman, President of Valley, stated that a copper price of $.85 (U.S.) per pound would be required to justify development. $.85 (U.S.) equates approximately the $.90 Canadian used in the financial studies I have referred to. While I doubt this price would be sufficient if Valley was not to participate in the Bethlehem mill, I do agree it would make any of the joint development proposals we have made extremely profitable for both Bethlehem and Valley.

I do not expect $.85 (U.S.) to be reached this year—or next year. However, the majority of copper producers, including Bethlehem, expect an improving trend to start later this year and a price of $.85 (U.S.), expressed in 1977 dollars, to be reached as early as 1980 and no later than 1981, i.e., between two and a half and four years from now. This span of time is hardly inordinate for construction of a project such as the Lake Zone.

Since the Lake Zone orebody was delineated copper price cycle peaks have been missed—at great expense to the Valley shareholders and to the Bethlehem shareholders. We are concerned this not happen again. We are concerned that our most recent offer has not been dealt with. We are concerned—both as Bethlehem and as a Valley shareholder—that steps be taken to properly develop the Lake Zone resource. Because of our concerns as a Valley shareholder we voted against management proposals at the recent Valley annual meeting. However, we are somewhat encouraged by Valley's reference to a copper price as prudent management dictates that the Lake Zone project be underway within twelve to eighteen months if yet another peak in copper price cycles is not to be missed."

Patrick M. Reynolds, Vice Chairman
advised the meeting that H. H. "Spud" Huestis, the company's first President and the discoverer of the mine in the Highland Valley, was absent from the shareholders meeting, due to ill health, for the first time since the company was incorporated in 1955. He asked the shareholders to join him in sending Mr. Huestis their very best wishes. He stated that Mr. Huestis is to be congratulated on being the first person to be honoured by receiving the B.C. & Yukon Chamber of Mines award for mineral prospecting in B.C. This is to be an annual award named "The H. H. Spud Huestis Award for Excellence in Prospecting and Mineral Exploration".

Mr. Reynolds advised the meeting that on July 1st, 1977 he is relinquishing his duties as Chief Executive Officer and responsibility for the day to day activities of the company. He thanked the shareholders, Chairman of the Board, the Directors, and particularly all employees, for the support which they have given him in the last ten years.

Plato Malozemoff, a Director of Bethlehem
and
Chairman and Chief Executive Officer
of Newmont Mining Corporation
addressed the meeting, remarking that his view remains the same as that expressed by him two years earlier. He said he is now, as he was then, optimistic about copper and Bethlehem's future even though the copper price is presently depressed and there is an even greater refined metal inventory in warehouses than was the case two years ago. Mr. Malozemoff stated that the reason for this optimism is the continuing role of copper metal in the economy of all industrialized countries. He noted that many countries of the world, not as well developed as the United States and some European countries, are demanding and beginning to acquire industrial capabilities to which copper is absolutely necessary. At the same time that demand for copper metal is growing, high capital cost of new mine construction is hindering new development; ultimately, an increase in price will follow, for without price improvement there can be little or no new production. He stated that depending on location and other factors, prices of $1.00 to $1.30 per pound are necessary to warrant new development. While he felt no one can say exactly when demand and price will rise, he was confident such would occur at which time Bethlehem's assets will be proven sound and will generate substantial profits for the shareholders.

Mr. Malozemoff concurred in the President's statement concerning the Lake Zone development.

He concluded by expressing confidence in the management of the company and reaffirming his optimistic view of Bethlehem's future.

Others who addressed the meeting were:
Sven Nils Ersman, Gränges AB, Stockholm
Kunio Ohta, Sumitomo Shoji Kaisha, Tokyo
Richard F. Dooley, Chicago